

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Building Authority of the City of Petoskey		County Emmet	
Fiscal Year End 12/31/2005		Opinion Date 04/21/2006		Date Audit Report Submitted to State 06/30/2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

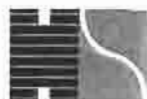
<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	None noted	
Other (Describe)		<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Hill, Schroderus, & Company, LLP			Telephone Number (231) 347-4136	
Street Address 923 Spring Street			City Petoskey	State MI
Authorizing CPA Signature 			Printed Name Scott B. Shearer	Zip 49770
			License Number 1101026946	

**FINANCIAL REPORT  
BUILDING AUTHORITY  
OF THE  
CITY OF PETOSKEY  
Year Ended December 31, 2005**

**BUILDING AUTHORITY OF THE CITY OF PETOSKEY  
FINANCIAL REPORT  
Year Ended December 31, 2005**

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**Hill • Schroderus & Co., LLP**

Certified Public Accountants & Consultants

April 21, 2006

Independent Auditors' Report

Board of Commissioners  
Building Authority of the City of Petoskey  
Petoskey, Michigan

We have audited the accompanying financial statements of the Building Authority of the City of Petoskey, Michigan, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Building Authority of the City of Petoskey's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Authority of the City of Petoskey as of December 31, 2005, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan



# City of Petoskey

101 East Lake Street, Petoskey, Michigan 49770 • 231 347-2500 • Fax 231 348-0350

## Management Discussion and Analysis December 31, 2005

The Building Authority of the City of Petoskey's financial statements consists of three financial reports. The Statement of Net Assets, the Statement of Revenues, Expenses and Change in Net Assets and the Statement of Cash Flows provide information about the activities of the Building Authority as a whole and presents a longer-term view of the Authority's finances.

### Financial Highlights

The Authority's net assets decreased by \$30 or .03% in 2005 and decreased \$1,739 or 1.9% in 2004.

Total revenues were \$220,814 in 2005 and \$284,785 in 2004 and are made up entirely of interest on lease contracts.

Total expenses were \$220,784 for 2005 and \$286,524 for 2004 and are made up of the following:

	2005	2004
Bond interest and fiscal charges	\$ 213,897	\$ 278,060
Bond issue costs amortization	6,887	8,464

The reduction in interest and fiscal charges between 2005 and 2004 of \$64,163 is mainly due to a change in the accounting method used to record interest expense.

### Project Highlights

The City's \$5.3 million library construction project on the corner of Mitchell and Waukazoo Street was completed in 2004. In 2005, the project's focus was on the Carnegie Building (previous library) with work performed on renovating the building's exterior.

### Financial Statement Presentation

#### Overview of Statements

Proprietary statements summarize all Authority activities into three statements using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

Proprietary statements include the Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets. The Statement of Net Assets includes assets, liabilities and the resulting difference between the two, called net assets. Changes in net assets can be reviewed to determine financial strength, with increases to net assets perceived as a sign of improving condition.

## Financial Statement Presentation – Continued

The Statement of Revenues, Expenses and Change in Net Assets presents revenues and expenses (including depreciation) that are the underlying cause of changes in net assets. Capital projects are excluded from this statement since they are included in the Statement of Net Assets as additions to capital assets.

## Financial Analysis

### Summary of Net Assets December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Current assets	\$ 320,066	\$ 316,945
Other assets	<u>4,946,867</u>	<u>5,152,119</u>
Total assets	<u>5,266,933</u>	<u>5,469,064</u>
Current liabilities	256,832	258,888
Long-term liabilities	<u>4,920,615</u>	<u>5,120,720</u>
Total liabilities	<u>5,177,447</u>	<u>5,379,608</u>
Net assets:		
Unrestricted	<u>\$ 89,486</u>	<u>\$ 89,456</u>

### Common Effects to Net Assets

There are a number of transactions in the normal course of business that will affect the comparability of the Summary of Net Assets presentation.

The net result of business activities for the year will impact (increase/decrease) current assets and/or net assets.

Borrowing capital will increase current assets and long-term debt.

Spending of borrowed proceeds on capital projects will reduce current assets and increase capital assets while having no impact on invested in capital assets, net of debt.

Spending non-borrowed current assets on capital projects will reduce current assets and increase capital assets while reducing unrestricted net assets and increasing invested in capital assets, net of debt.

Principal payments on debt will reduce current assets, long-term debt and unrestricted net assets, while increasing invested in capital assets, net of related debt.

Reduction of capital assets due to annual depreciation will reduce capital assets and invested in capital assets, net of debt.

## Financial Analysis – Continued

### Change in Net Assets December 31, 2005 and 2004

	2005	2004
Revenues		
Interest on lease contracts	\$ 220,814	\$ 284,785
Expenses		
Bond interest and fiscal charges	213,897	278,060
Bond issue cost amortization	6,887	8,464
Change in net assets	30	(1,739)
Net assets-beginning of year	89,456	91,195
Net assets-end of year	<u>\$ 89,486</u>	<u>\$ 89,456</u>

## Debt Administration

### Bond Debt

The Authority has \$5,140,000 in outstanding bond debt at year-end in 2005, which is distributed in the following debt schedule.

### Debt Schedule December 31, 2005 and 2004 (Excluding bond discount and refunding deferral)

	2005	2004
General Obligation	\$ 4,200,000	\$ 4,250,000
Municipal facilities	395,000	500,000
Parking improvements	545,000	595,000
Total bond debt	<u>\$ 5,140,000</u>	<u>\$ 5,345,000</u>

Principal payments on bonds in the amount of \$205,000 were made in 2005 and \$205,000 were made in 2004.

## Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Director of Finance at 101 E. Lake Street, Petoskey, MI 49770.

**BUILDING AUTHORITY OF THE CITY OF PETOSKEY**  
**STATEMENT OF NET ASSETS**  
**December 31, 2005**

**Assets**

**Current assets**

Cash	\$ 63,234
Receivables:	
Current portion of lease contracts	205,000
Interest	<u>51,832</u>
Total current assets	<u>320,066</u>

**Noncurrent assets**

Bond issue costs - net	65,425
Lease contracts receivable - net	<u>4,881,442</u>
Total noncurrent assets	<u>4,946,867</u>
Total assets	<u><u>\$ 5,266,933</u></u>

**Liabilities and Net Assets**

**Current liabilities**

Current portion of general obligation bonds	\$ 205,000
Accrued interest	<u>51,832</u>
Total current liabilities	<u>256,832</u>

**Noncurrent liabilities**

General obligation bonds (net of current portion, unamortized discounts and deferred amount on refunding)	4,881,442
Deferred revenue	<u>39,173</u>
Total noncurrent liabilities	<u>4,920,615</u>
Total liabilities	<u>5,177,447</u>

**Net assets**

Unrestricted	<u>89,486</u>
Total liabilities and net assets	<u><u>\$ 5,266,933</u></u>



BUILDING AUTHORITY OF THE CITY OF PETOSKEY  
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS  
For the Year Ended December 31, 2005

**Revenues**

Interest on lease contract	<u>\$ 220,814</u>
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**Expenses**

Bond interest and fiscal charges	213,897
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Bond issue costs amortization	<u>6,887</u>
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Total expenses	<u>220,784</u>
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Change in net assets	30
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Net assets, beginning	<u>89,456</u>
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Net assets, ending	<u><u>\$ 89,486</u></u>
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**BUILDING AUTHORITY OF THE CITY OF PETOSKEY**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2005**

Cash flows from operating activities:	
Cash received on lease payments	\$ 426,130
Cash flows from capital financing activities:	
Principal paid on general obligation bond maturities	(205,000)
Interest paid on general obligation bonds	(215,553)
Fiscal charges	(400)
Net cash used for capital financing activities	(420,953)
Net increase (decrease) in cash	5,177
Cash at beginning of year	58,057
Cash at end of year	\$ 63,234
Reconciliation of operating revenues to net cash provided by operating activities:	
Operating revenues	\$ 220,814
Adjustments to reconcile operating income to net cash provided by operating activities:	
Lease principal payments	205,000
Decrease in accrued interest	2,057
Decrease in deferred revenue	(1,741)
Net cash provided by operating activities	\$ 426,130

**BUILDING AUTHORITY OF THE CITY OF PETOSKEY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Building Authority of the City of Petoskey, Michigan (the Authority) pertain to the financial activities of the Authority as a separate entity. These activities have also been consolidated with the financial statements of the City of Petoskey, Michigan.

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Authority.

The Building Authority has lease contracts with the City of Petoskey, Michigan, covering City Hall, marina, downtown and library improvements constructed or being constructed by the Authority. Since the contracts represent a financing transaction, the Authority has recorded the lease contracts as a receivable in lieu of recording the properties as fixed assets.

The Authority uses the full accrual method of accounting. Interest revenue on the lease contracts is recorded only if the payments received exceed the amount of the related principal payments on outstanding bonds. If principal payments on bonds outstanding exceed related payments received from the City, the difference is recorded as a forgiveness of the lease contract receivable. All of the revenue recorded by the Authority is considered operating revenue.

The Building Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

For purposes of the Statement of Cash Flows, cash is considered to be cash on hand and demand deposits.

**NOTE 2: CASH**

At year-end, the carrying amount of the Authority's deposits and its bank balance was \$63,234. This balance is pooled with City of Petoskey funds, and therefore the amount that is uninsured at December 31, 2005 cannot be determined.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 2: CASH – CONTINUED

The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits and investment policy are in accordance with statutory authority.

### NOTE 3: LEASE CONTRACTS AND BONDS

The Building Authority has a lease contract with the City of Petoskey, Michigan, covering a new City Hall and marina improvements. General obligation bonds totaling \$1,350,000 were issued in 1988 by the Building Authority and all of the proceeds were used to acquire and construct the new City Hall and marina improvements. In 1999, the Building Authority issued \$965,000 in refunding bonds to refund the remaining balance of the original general obligation bonds.

The Building Authority has a lease contract with the City of Petoskey, Michigan, covering downtown improvements. General obligation bonds totaling \$800,000 were issued in 1999 by the Building Authority and all of the proceeds were used for this purpose.

The Building Authority has a lease contract with the City of Petoskey, Michigan, covering Library improvements. General obligation bonds totaling \$4,300,000 were issued in 2003 by the Building Authority and all of the proceeds were used for this purpose.

Rental receipts under the lease agreement, which are pledged as collateral for the bonds, have been set at the amount necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, ownership of the related facilities will be turned over to the City.

Details of the ordinances and related assets and liabilities are as follows:

	City Hall and Marina Improvements	Downtown Improvements	Library Improvements	Total
Lease contract receivable	\$ 440,524	\$ 689,130	\$ 6,657,312	\$ 7,786,966
Interest	(45,524)	(144,130)	(2,457,312)	(2,646,966)
Bond discount	-	-	(34,341)	(34,341)
Refunding deferral	(19,217)	-	-	(19,217)
Net receivable on balance sheet	<u>\$ 375,783</u>	<u>\$ 545,000</u>	<u>\$ 4,165,659</u>	<u>\$ 5,086,442</u>
Bonds outstanding, net	<u>\$ 375,783</u>	<u>\$ 545,000</u>	<u>\$ 4,165,659</u>	<u>\$ 5,086,442</u>
Interest rates	<u>4.5% to 4.75%</u>	<u>4.5% to 5.0%</u>	<u>2.5% to 4.4%</u>	

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 3: LEASE CONTRACTS AND BONDS - CONTINUED

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
General obligation debt:					
1999 Refunding Bonds	\$ 500,000	\$ -	\$ (105,000)	\$ 395,000	\$ 105,000
1999 Downtown Improvement Bonds	595,000	-	(50,000)	545,000	50,000
2003 Library Bonds	4,250,000	-	(50,000)	4,200,000	50,000
Bond discount	(35,867)	1,526	-	(34,341)	-
Refunding deferral	(24,326)	5,109	-	(19,217)	-
Total general obligation debt	<u>\$ 5,284,807</u>	<u>\$ 6,635</u>	<u>\$ (205,000)</u>	<u>\$ 5,086,442</u>	<u>\$ 205,000</u>

The annual requirement to amortize all general obligation bonds outstanding, as of December 31, 2005, is as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 205,000	\$ 207,327
2007	250,000	199,026
2008	250,000	189,550
2009	275,000	180,001
2010	185,000	169,562
2011-2015	1,025,000	735,312
2016-2020	950,000	547,288
2021-2025	1,150,000	341,900
2026-2030	<u>850,000</u>	<u>77,000</u>
Total	<u>\$5,140,000</u>	<u>\$2,646,966</u>